

Good News for Defaulted Borrowers



What is default?

Default is the failure to repay your loan according to the terms in your promissory note. When you signed your promissory note and received your student loan, you made a legal commitment to repay the loan, even if you did not complete or are not satisfied with your education.

When you did not make a payment by your due date, your loan became delinquent. When the delinquency reached 180 or 270* days, your loan went into default status, and the Missouri Student Loan Program purchased your loan to collect the money you owe. You are now responsible for paying the full amount of your loan, plus interest and collection costs.

*Depending on the first day of delinquency on your oldest outstanding payment

What are my options?

You have several options if you have defaulted on your student loan. Talk to the MSLP or the collection agency assigned to your account to determine which is best for you, based on your goals.

- 1. Repay your loan in full:** Contact the MSLP at (800) 824-4893 or the collection agency assigned to your account to obtain your payoff amount.
- 2. Rehabilitate your loan:** Loan rehabilitation removes your student loan from default status, restoring your eligibility for deferment, forbearance, and student financial aid. It also removes the default status from your credit report.

After you make at least 12 satisfactory payments (see other side), the MSLP can sell your loan to a secondary market or loan holder. Do not stop making satisfactory payments until the MSLP notifies you that your loan has been rehabilitated. The MSLP may require you to authorize rehabilitation in writing.

- 3. Reinstate your eligibility for student financial aid:** Many borrowers choose to return to school; however, after defaulting, you are not eligible to receive student financial aid. To renew your eligibility after you default on a federal student loan, you must make six satisfactory payments (see other side), then make a written request for a letter of reinstatement of financial aid eligibility to provide to the school you plan to attend.

You must continue to make satisfactory payments on your loan while you are in school. You also must request reinstatement of your financial aid eligibility each academic year.

If you miss a payment or make a late payment after receiving reinstatement, you will not qualify for reinstatement again.

4. Consolidate your debt: Consolidation allows you to borrow a new loan to repay your existing student loan debt. Consolidation may allow you to repay your debt over a longer period of time, resulting in lower monthly payments but greater total debt.

You should begin the process of consolidating your debt by making at least three satisfactory payments (see below). Lenders may have different procedures for consolidating defaulted loans, so ask about application procedures.

Consolidation may not be your best option. Ask the consolidating lender about your payment options, interest rates, and eligibility criteria. You should fully evaluate your options, including paying the loan in full with a lump sum payment, rehabilitating the loan, or simply continuing to make payments to the collector of the loan.

If you consolidate your defaulted loan, the MSLP will assess collection costs, in the amount of 18.5 percent of your outstanding balance, to your account.

What are satisfactory payments?

To be considered "satisfactory," your payments must be:

- consecutive,
- voluntary (not obtained through wage garnishment, Federal Treasury offset, federal or state tax offset, etc.),
- full
 - a "reasonable and affordable payment," documented in writing and based on your income and debts, or
 - the greater of \$50 or the minimum payment to pay your debt in full within 10 years,
- on time (received within 15 days of the payment due date), and
- monthly.

Contact the MSLP or the collection agency assigned to your account to determine your satisfactory payment!

More Information

If you have questions about the contents of this publication or about planning and paying for college, contact the MOSTARS Information Center at (800) 473-6757 ext. 1, (573) 751-3940, or icweb@mocbhe.gov or visit MOSTARS online at www.mostars.com.